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**DISCOVERY MINES
LIMITED**

1977

ANNUAL REPORT

DISCOVERY MINES LIMITED

OFFICERS

J. C. BYRNE
President and Managing Director

D. R. CROMBIE
Vice-President, Operations

W. STEUERMAN
Secretary-Treasurer

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director, Rayrock Mines Limited,

D. R. CROMBIE
Vice-President, Operations,
Rayrock Mines Limited.

C. M. EVANS, Calgary
Senior Vice-President, Ashland Oil Canada Limited

E. S. HOLMGREN, Detroit
Retired Mining Executive

W. J. WHELAN, Calgary
Executive Vice-President, Ashland Oil Canada Limited

EXECUTIVE ENGINEER

L. A. BEDNARZ

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

CAMPBELL, GODFREY & LEWTAS,
Toronto

ANNUAL MEETING

May 18, 1978, 9:15 a.m., Lancaster Room,
Hyatt Regency Hotel (Now Four Seasons, Toronto), Toronto

DISCOVERY MINES LIMITED

Directors' Report to the Shareholders

To the Shareholders:

Having reduced further its bank indebtedness since the year end, your Company is giving some consideration to new projects. Opportunities in low risk oil and gas ventures are currently being investigated, the income from which would be sheltered from tax by Discovery's \$1.5 million of unused exploration and development expense.

Discovery's investment in Rayrock appreciated substantially during 1977, and at year end the 970,400 shares owned had a market value of \$1.3 million. Additional oil and gas participations represent the highlights of Rayrock's recent activities. Independent valuations of that company's projected recoverable oil and gas reserves in both Ontario and Alberta show a pre-tax discounted present worth in excess of \$5.5 million. For 1977 Rayrock reported increases in net earnings, cash flow and working capital. Exploration involvements in mining include a uranium joint venture and participation in two major syndicates.

No work has been conducted on Camlaren's gold property since the 1974-75 underground exploration and development program financed and undertaken by Discovery Mines Limited at a cost of \$1,113,600.

Although bullion has recovered appreciably from its 1976 average of \$123 per ounce, the rise has been accompanied by continuing escalations in capital and operating costs. In addition, the capital investment to meet environmental standards has escalated to unreasonable levels. Much higher gold prices coupled with evidence of stability would therefore be required to attract the capital to attain production.

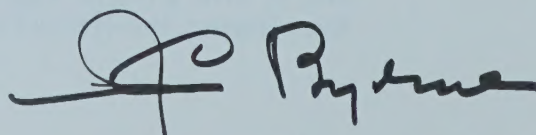
The economics of a potential operation at Camlaren might be enhanced if custom milling arrangements can be negotiated with one of the gold producers in Yellowknife. In such an event, winter trucking of the ore should not present any formidable problems.

Despite outstanding efforts of the staff and crew in holding costs, the Irish operation of Avoca Mines continued at a substantial loss — a result of extremely low copper prices. At year end Messina (Transvaal) Development Company terminated exploration at the mine property. The Irish Government subsequently increased its guarantee of Avoca Mines' bank overdraft which will enable the operation to continue for an undeterminable period.

Discovery's investment in both the shares and debentures of Avoca Canada were written down to a nominal value in 1975 due to the mine's uncertain future.

On behalf of the Board of Directors,

Toronto, Canada
April 14, 1978



President and Managing Director

DISCOVERY MINES LIMITED

Consolidated Statement of Operations and Deficit

For the Year Ended December 31, 1977

| | 1977 \$ | 1976 \$ |
|---|------------------|------------------|
| Income | | |
| Investment income | — | 2,230 |
| Other income | — | 15,420 |
| Gain on sale of fixed assets | 26,453 | 57,172 |
| Gain (loss) on sale of investments | 4,907 | (21,280) |
| | <u>31,360</u> | <u>53,542</u> |
| Expenses | | |
| Property maintenance | 4,083 | 19,130 |
| Head office expenses | 20,998 | 60,469 |
| Bank interest | 15,638 | 26,304 |
| | <u>40,719</u> | <u>105,903</u> |
| Loss before the undernoted items | 9,359 | 52,361 |
| Share of loss determined by the equity method | 738 | 6,007 |
| Loss for the year | <u>10,097</u> | <u>58,368</u> |
| Deficit — beginning of year | 1,166,697 | 1,108,329 |
| Deficit — end of year | <u>1,176,794</u> | <u>1,166,697</u> |
| Loss per share | <u>\$ —</u> | <u>\$0.02</u> |

DISCOVERY MINES LIMITED

Consolidated Balance Sheet

ASSETS

| | 1977 \$ | 1976 \$ |
|---|------------------|------------------|
| Current assets | | |
| Cash | 49,205 | 14,887 |
| Accounts receivable and prepaid expenses | 19,058 | 56,869 |
| | 68,263 | 71,756 |
| Amounts due on sale of mine equipment | 25,000 | — |
| Long-term investments (notes 1(b) and 2) | 1,332,293 | 1,347,334 |
| Mining properties (note 3) | | |
| Mining claims | 342,616 | 342,616 |
| Furniture and equipment | 931 | 11,779 |
| Deferred exploration and development expenditures | 1,113,600 | 1,113,365 |
| | 1,457,147 | 1,467,760 |
| | <u>2,882,703</u> | <u>2,886,850</u> |

AUDITORS' REPORT

We have examined the consolidated balance sheet, consolidated statements of operations and deficit and examination was made in accordance with generally accepted accounting principles and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company at December 31, 1977 and the results of its operations and in accordance with generally accepted accounting principles.

March 15, 1978
Toronto, Canada

as at December 31, 1977

LIABILITIES

| | 1977 \$ | 1976 \$ |
|--|----------------|----------------|
| Current liabilities | | |
| Bank indebtedness (note 4) | 160,000 | 185,000 |
| Accounts payable and accrued liabilities | 13,299 | 27,903 |
| Due to Rayrock Mines Limited | 148,998 | 101,562 |
| | <u>322,297</u> | <u>314,465</u> |
| Minority interest | 41,653 | 43,535 |
| | <u>363,950</u> | <u>358,000</u> |

SHAREHOLDERS' EQUITY

| | | |
|--|------------------|------------------|
| Capital stock | | |
| Authorized — 4,000,000 shares of \$1 par value each | | |
| Issued and fully paid — 3,188,773 shares | 3,188,773 | 3,188,773 |
| Contributed surplus | 506,774 | 506,774 |
| Deficit | (1,176,794) | (1,166,697) |
| | <u>2,518,753</u> | <u>2,528,850</u> |
| | <u>2,882,703</u> | <u>2,886,850</u> |

Signed on behalf of the board

J. C. BYRNE, Director

W. J. WHELAN, Director

THE SHAREHOLDERS

discovery Mines Limited as at December 31, 1977 and the
ages in financial position for the year then ended. Our
auditing standards, and accordingly included such tests
instances.

present fairly the financial position of the company as at
anges in its financial position for the year then ended in
lied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

DISCOVERY MINES LIMITED

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1977

| | 1977 \$ | 1976 \$ |
|---|-----------------------|-----------------------|
| Source of working capital | | |
| Proceeds on sale of fixed assets | 36,551 | 57,172 |
| Proceeds on sale of investments | 28,296 | 60,460 |
| | <u>64,847</u> | <u>117,632</u> |
| Use of working capital | | |
| Current operations (note 7) | 39,969 | 35,085 |
| Advances to Avoca Mines Canada Limited | 10,968 | 3,845 |
| Development expenditures — deferred | 235 | — |
| Increase in amounts due on sale of mine equipment | 25,000 | — |
| | <u>76,172</u> | <u>38,930</u> |
| Decrease (increase) in working capital | 11,325 | (78,702) |
| Working capital deficiency — beginning of year | 242,709 | 321,411 |
| Working capital deficiency — end of year | <u>254,034</u> | <u>242,709</u> |

DISCOVERY MINES LIMITED

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1977

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Camlaren Mines Limited and Botha Lake Mining Corporation Limited. Investments in effectively controlled companies are accounted for by the equity method.

(b) Long-term investments

The investment in shares of effectively controlled companies is carried at cost adjusted by the company's share of their earnings or losses since effective control was acquired.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

2. LONG-TERM INVESTMENTS

(a) This item comprises:

Investment in companies accounted for by the equity method —

| | 1977 \$ | 1976 \$ |
|---------------------------------|---------------|---------------|
| Shares (notes 1 and 2(b)) | 10,578 | 13,199 |
| Debentures | 1 | 1 |
| | <u>10,579</u> | <u>13,200</u> |

Other investments — at cost —

| | | |
|---|------------------|------------------|
| Shares (notes 1(b) and 2(c)) | 1,221,238 | 1,244,625 |
| Advances to Avoca Mines Canada Limited and its subsidiary (note 2(e)) | <u>100,476</u> | <u>89,509</u> |
| | <u>1,332,293</u> | <u>1,347,334</u> |

(b) The quoted market value of the shares of these companies accounted for by the equity method is \$194,891 (1976 — \$89,950).

(c) Other investments include listed shares carried at a cost of \$1,220,537 with a quoted market value of \$1,316,715 (1976 — \$1,080,063 and \$789,804, respectively).

(d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

(e) The ultimate realization of the advances to Avoca Mines Canada Limited and its subsidiary is dependant upon the substantial improvement of the presently depressed copper prices.

3. MINING PROPERTIES

(a) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost, less amounts written off:

| | 1977 \$ | 1976 \$ |
|--|----------------|----------------|
| 32 claims Whitehorse Yukon Territory | 69,312 | 69,312 |
| 27 claims Discovery N.W.T. | 1 | 1 |
| 21 claims Gordon Lake Area N.W.T. | 273,300 | 273,300 |
| Sundry | <u>3</u> | <u>3</u> |
| | <u>342,616</u> | <u>342,616</u> |

DISCOVERY MINES LIMITED

3. MINING PROPERTIES (continued)

(b) The amounts shown for mining properties represent costs to date, less amounts written off, and are not intended to reflect present or future values.

(c) Deferred exploration and development expenditures (note 1(d)):

| | Balance December 31, 1976 \$ | Expenditure during year \$ | Written off \$ | Balance December 31, 1977 \$ |
|------------------------|---------------------------------------|-------------------------------------|----------------------|---------------------------------------|
| Camlaren Project | <u>1,113,365</u> | <u>235</u> | <u>—</u> | <u>1,113,600</u> |

(d) The ultimate realization of the company's investment in mining properties and deferred exploration and development expenditures is dependant upon the availability of financing and the development of successful mining operations.

4. BANK INDEBTEDNESS

Bank indebtedness is partially secured by a general assignment of book debts.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

(a) Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration in the year ended December 31, 1977 of \$3,500 (1976 — \$38,300).

(b) Rayrock Mines Limited pays substantially all the remuneration of directors and senior officers of the company and other associated companies, and is reimbursed by these companies for their proportionate share thereof.

6. CONTINGENT LIABILITY

The company has guaranteed that it will be responsible for any currency exchange differences, based on 1973 rates, that may arise from the payment in commercial French francs of a liability of \$406,000 of Avoca Mines Limited.

7. USE OF FUNDS FROM CURRENT OPERATIONS

| | 1977 \$ | 1976 \$ |
|--|---------------|---------------|
| Net loss for the year | 10,097 | 58,368 |
| Items not affecting working capital — | | |
| Advances to Avoca Mines Canada Limited written off | — | (51,975) |
| Gain (loss) on sale of investments | 4,907 | (21,280) |
| Gain on sale of fixed assets | 26,453 | 57,172 |
| Share of loss determined by the equity method | (738) | (6,007) |
| Other | (750) | (1,193) |
| | <u>39,969</u> | <u>35,085</u> |

8. INCOME TAXES

The company has substantial amounts of deferred exploration and development expenditures available for income tax purposes which may be applied against income of future periods.

9. RECLASSIFICATION OF 1976 FIGURES

Certain of the 1976 figures have been reclassified where necessary for comparative purposes.

10. ANTI-INFLATION

The company is subject to restraints of dividends under the terms of the Anti-Inflation Act and Regulations.

